Public Service Pension Plan

2001 annual report

Public Service Pension Plan

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Pension and investment terms are defined in the glossary on page 39.

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Photo credits: Economic Development Edmonton (Travel Alberta CD)

Cover Photo:
Two Jack Lake, Banff National Park, Alberta

› Calgary tower, downtown Calgary skyline

plan basics

- The benefits promised under the Plan must be appropriate and delivered in a timely and cost-effective manner
- The Board is accountable to the Plan's stakeholders
- All decisions made by the Board must be financially prudent, ensuring the overall financial health of the Plan is maintained
- The Plan must be effectively and capably managed and be in compliance with legislation and regulations

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- The Plan is administered by Alberta Pensions Administration (APA) Corporation.
- PSPP Fund investments are managed by the Investment Management Division (IMD) of Alberta Revenue. The Fund has a diversified investment portfolio of bonds, domestic and foreign equities, money market securities, mortgages and real estate.
- Net assets available for benefits were $3.8 billion as at December 31, 2001.
- The Plan is financed by active member and employer contributions and by the investment earnings of the PSPP Fund.
- The Plan is a defined benefit plan, which means members will receive a pension based on their salary and years of service.

psp board members

- The Public Service Pension Board has six members, including three employer representatives nominated by the Government of Alberta and three employee representatives nominated by the Alberta Union of Provincial Employees (AUPE). Provincial legislation requires the offices of Board Chair and Vice-Chair alternate every two years between employer and employee nominees.

- The Board is responsible for:
  - setting the policy guidelines for the investment and management of Fund assets;
  - setting policy guidelines for the administration of the Plan;
  - setting contribution rates to fully fund the Plan;
  - making recommendations for amending Plan rules;
  - reviewing administrative decisions; and
  - arranging an actuarial valuation at least once every three years.

plan membership

› Peace River and Smokey River converge in Peace River, Alberta.

The Public Service Pension Plan serves 29 employers, 34,775 active members, 9,602 deferred members and 16,272 pensioners.

message from the board

Last year was a challenging one for the Public Service Pension Board as world events led to turmoil in the financial markets. However, after assessing the effects of the market downturn through the regular investment policy review process, the Board remained committed to focusing on the long-term objectives of the Plan. As always, the Board kept in mind that a defined benefit pension plan must be managed with a long-term view, and that reacting to one-time events and short-term fluctuations can have negative implications for the viability of the Plan.

Our mission statement serves as a clear guidepost: "The Board will act solely in the interests of Plan stakeholders to ensure the Plan and its assets are managed effectively and efficiently in order to provide promised benefits to the Plan's beneficiaries."

Please note that financial statements presented in this annual report are based on an extrapolation of the Plan's liabilities using the actuarial assumptions developed for the 2000 valuation.

Market Impact

The significant downturn in the financial markets was reflected in PSPP investment performance. The annual return of -4.4% was less than the long-term rate of return of 7.25% required to fully fund the Plan's pension obligations. However, markets stabilized towards the end of 2001 and many forecasters are predicting an economic recovery and better market returns going forward. With a long-term investment philosophy and policy in force, the Board is committed to ensuring that the Plan remains funded for current and future pensioners and beneficiaries. A full discussion of market and investment performance is presented in the Investment Report starting on page 10.

Funded Status

At the end of 2000, we conducted a full actuarial valuation of the Public Service Pension Plan. The Board and its actuary reviewed the actuarial assumptions used for the valuation, calculated the cost of prospective design and benefit changes and determined the value of Plan's liabilities. Liabilities were calculated on both a going-concern basis (which assumes the Plan will continue forever) and on a solvency basis (which assumes the Plan was wound-up at the end of 2000). The Board determined that the Plan is financially sound on both counts.

A key area reviewed in any valuation is the current service cost. Currently, both employers and members contribute 4.675% of salary up to the YMPE (the Canada Pension Plan Yearly Maximum Pensionable Earnings was $38,300 in 2001) and 6.55% over the YMPE. Combined, the overall contribution rate is 9.86%. The actuary determined that at the end of 2000, the current service cost for the Plan had risen to 10.12%. This was due to a combination of changes in actuarial assumptions, an increase in the average age and earnings of Plan members and the cost of Plan improvements made since the 1998 valuation. The Board concluded that the difference between current contribution rates and the current service cost of 0.26% is not significant enough to warrant a change in contribution rates at this time. Instead, this small contribution shortfall can be accommodated by the Plan's surplus.

Under the Terms of Agreement set out in 1992, the employer and employee contribution rates were increased by 0.25% for future benefit enhancements, including cost-of-living-adjustments (COLA). With the changes the Board has both made and proposed, the Plan has been enhanced to a degree that the extra 0.25% contribution now forms part of the current service contribution rate. Some of the Plan enhancements included a move to vesting after two years of membership, commuted value on all service, 50% member contribution excess rule applied to all service, and a 10% ad hoc COLA adjustment for 2001. As well, once approved by Cabinet, the Plan will have additional benefit enhancements that will take effect January 1, 2003.

Committees

The Board has undergone a transition in the past few years from working predominantly as a "committee of the whole" to a Board with a formal committee structure. The Board now has two standing committees – the Administration Committee and the Investment Committee – which conduct in-depth research and make recommendations to the Board.

The Administration Committee evaluates the overall administration of the Plan while examining specific items such as the Board's communication policy, administrative review policy, administrative service agreements and plan design changes. The 2001 Administration Committee (Lorna Smith, Jim Campbell and Len Pederson) focused on finalizing benefit and design changes in consultation with the Plan's sponsors. Further details follow later in this report.

The Investment Committee (in 2001, Carl Soderstrom, Janina Vanderpost and Ian Tarr as well as two external members, Dick Bradshaw and Jim Drinkwater) reviewed the Plan's investment policy and related processes, examined in detail particular elements of the investment policy and evaluated the Plan's overall investment performance. Details of the investment policy changes and investment performance are in the Investment Report that follows.

Benefit Review

During 2000, the Board examined various benefit and design improvements. In 2001, they provided information about the proposed changes to the major Plan sponsors and to Alberta Pensions Administration (APA) to familiarize them with the details and implications of the amendments. By year-end, sponsors had expressed support for the changes and passed on their comments to the Minister of Finance. Recommendations for Plan amendments have been forwarded to the Minister of Finance with an anticipated implementation date of January 1, 2003. This will allow time during 2002 for a communications strategy to inform Plan members, employers and other stakeholders of the changes.

One Plan improvement the Board has authority to implement is ad hoc (COLA) to pensions and deferred pensions. Since 1994, pension legislation has set COLA for the Public Service Pension Plan at 60% of the previous year's increase in Alberta's Consumer Price Index (CPI). However, the legislation also allows the Board to grant ad hoc COLA increases above the 60% legislated rate if the Plan meets certain funding requirements. As part of the 2000 actuarial valuation, the Board determined the Plan's funded status was sufficient to allow an additional ten-percentage point COLA increase above the 60% level, on an ad hoc basis, to pensions and deferred pensions. As a result, the COLA granted effective January 1, 2002 was equal to 70% of the Alberta CPI increase.

It is important to note that "ad hoc" means the increase is a one-time-only event, and is not guaranteed to continue. If the Plan meets the funding requirements in the future, the Board may again grant ad hoc COLA increases in subsequent years. Plan members should be assured, however, that at no time will the annual COLA fall below the legislated rate of 60% of Alberta's CPI. As well, the 2002 ad hoc increase will become part of the member's base pension or benefit, which will not be reduced if there are no further ad hoc COLA increases in future years.

APEX

In 2001, the Board re-affirmed its commitment to APA's pension administration system upgrade, known as APEX. The Public Service Pension Plan is scheduled to be one of the first plans to move to the new APEX system in late 2002. While a significant financial commitment has been made to the system upgrade, the Board believes that APEX is a necessary improvement to ensure that the Plan can continue to provide excellent administrative

services to stakeholders, now and in the future. All aspects of Plan administration will be enhanced, including communication with customers, responsiveness to customers, timely benefit calculation and processing, secure data transactions and management, as well as flexibility to manage future changes in the business environment.

While the APEX system will require employers to make some changes, particularly around their methods and systems for exchanging pension information with APA, the Board believes the long-term benefits will significantly outweigh any costs. Consequently, we request that employers work cooperatively with APA during the upcoming year to ensure that the full benefits of the APEX system can be realized for all parties.

Transfer of Deferred and Hold-on-Deposit Members

Government restructuring has had an impact on the membership of the PSPP, most notably with the transfer of approximately 4,900 members to the Local Authorities Pension Plan (LAPP) in January 2000. In 2001, the two Boards agreed to a method to resolve the issue of deferred and hold-on-deposit members whose pensions were affected by government restructuring.

The Boards agreed to provide a six-month "window" for members who had pension funds in both plans to apply to consolidate their pension credits in either PSPP or LAPP. The opportunity was available for individuals who had left one plan after January 1, 1994 and joined the other plan before December 31, 2000, the period during which most government restructuring took place.

This opportunity allowed members who had terminated their employment but left pension funds in one of the plans – as either a deferred pension or a hold-on-deposit account – to consolidate their account in the other plan on a cost-free basis. Members also benefited who had already transferred their service under the current transfer terms described in the legislation. Shortfalls in service were credited, or additional amounts paid by members were refunded to them.

A total of 886 persons benefited from this transfer opportunity. There were 212 members who moved their accounts from the LAPP to the PSPP, 494 members moved their accounts from PSPP to LAPP, and 180 members had service restored or additional payments refunded.

The Board continues to work with the government on improving transfer agreements among Alberta's public sector plans. During 2001, the Board provided recommendations to the Minister of Finance for reciprocal transfer agreements.

Board Membership

In 2001, the Board welcomed one new Board member – Janina Vanderpost – as an employer representative. Janina's background and experience in the field of pension policy are a welcome addition to the Board, and her contributions are appreciated.

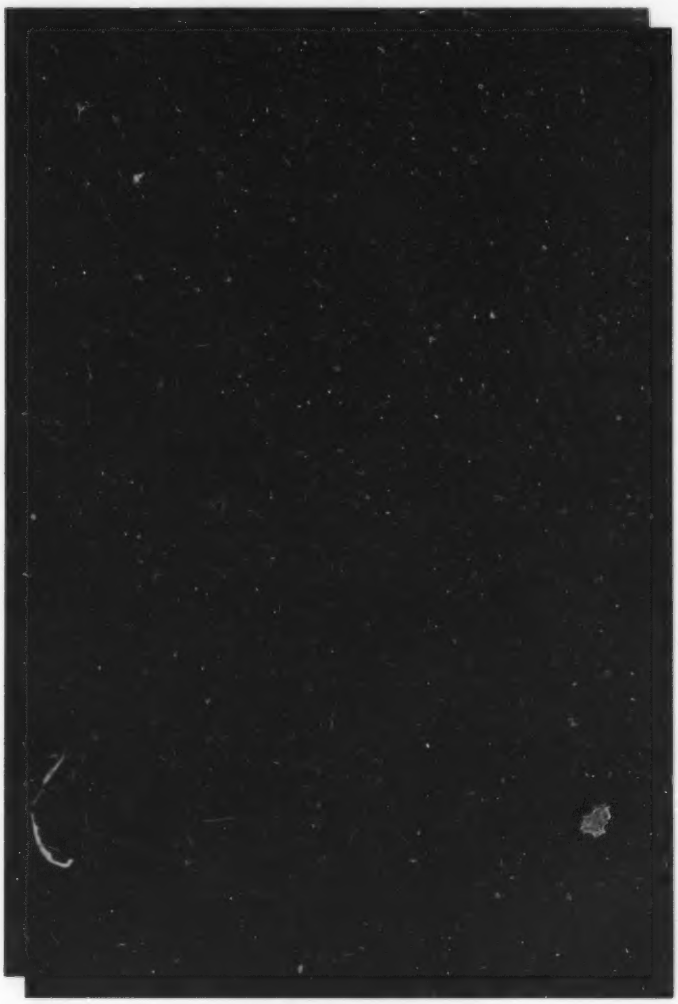
Jim Campbell, an employer representative, had his term expire at year-end. We would like to thank Jim for his years of service on the Board and wish him well in his future endeavours. Sandra Kraatz will replace him as an employer representative in 2002.

The Board thanks all Plan members, employers, pensioners and other stakeholders for their input and advice in 2001. We also extend our appreciation to the staff of Alberta Pensions Administration Corporation and the Investment Management Division of Alberta Revenue for all their efforts over the course of the year.

On behalf of the Board,

Jim Campbell, 2001 Chair
Public Service Pension Board

mission statement



› Gondola ride at Sulphur Mountain in Banff, Alberta.

The Board will act solely in the interests of Plan stakeholders to ensure the Plan and its assets are managed effectively and efficiently in order to provide promised benefits for the Plan's beneficiaries.

investment report

Fund Performance

World events in 2001 led to turmoil in the financial markets. Consequently, the overall Fund return was -4.4%. Severe market corrections resulted in poor equity performance in all major markets. This was partially offset by strong performance in fixed income markets, particularly longer-term bonds and real return bonds.

The return was 0.10% below the policy benchmark return of -4.3%. On a four-year rolling average, the Fund's return was 6.4% – 0.20% above the policy benchmark for the same period. On an eight-year rolling average, the Fund's return was 8.9% – 0.20% below the policy benchmark for that period.

To meet the needs of the Plan, it is expected that investments earn at least 4.0% greater than inflation on a long-term basis. While there have been individual years, such as 2001, when this objective has not been met, on a long-term basis the Fund has exceeded this objective. On a four-year basis, investments earned 4.5% more than inflation. On an eight-year basis, investments earned 7.4% more than inflation.

Change in Net Assets

Net assets available to pay benefits at the end of 2001 were $3.836 billion, a decrease of $217 million from $4.053 billion in assets at the start of the year. As pension payments continue to exceed contributions on a year-to-year basis, achieving investment returns at or above the policy benchmark is very important.

	Annual Returns (%)			
	2001	2000	1999	1998
Total Fund	**-4.4**	**6.5**	**15.3**	**8.9**
Policy Return	-4.3	5.9	13.2	10.7
CPI	0.7	3.2	2.5	1.0
Short-term	**4.7**	**5.8**	**5.1**	**5.0**
SC 91 Day T-bill	4.7	5.5	4.7	4.7
Fixed Income	**8.7**	**10.9**	**-1.0**	**9.2**
SC Bond Universe	8.1	10.2	-1.1	9.2
Real Return Bonds	**n/a**	**n/a**	**n/a**	**6.1**
SC Bond Index	.05	16.7	8.0	6.0
Canadian Equities	**-10.8**	**9.3**	**29.1**	**-2.5**
TSE 300	-12.6	7.4	31.7	-1.6
U.S. Equities	**-6.4**	**-4.0**	**12.9**	**28.3**
S&P 500	-6.4	-5.8	14.2	38.0
Non-North American Equities	**-16.0**	**-12.2**	**43.4**	**24.3**
MSCI EAFE	-16.5	-11.2	20.0	28.8
Real Estate	**8.0**	**7.2**	**7.4**	**12.7**
Russell Canadian Property Index	10.3	11.7	10.7	16.0

Investment Committee:

Members and Mandate

The Investment Committee consists of Board members Carl Soderstrom, Ian Tarr and Janina Vanderpost as well as two outside committee members, Dick Bradshaw and Jim Drinkwater, who bring a solid background in investment and finance. While the Board approves the Committee's recommendations, the Board has charged the committee with the following responsibilities:

Monitor and analyze the investment performance of the Fund on a comprehensive basis once each quarter;

Review and analyze each component of the Fund at least once a year;

Assess the cost-effectiveness of investment strategies and processes;

Monitor investments to ensure they comply with the Board's policies, applicable laws and regulations;

At least once a year, advise the Board on appropriateness of the Investment Policy; and

Other investment related matters as requested by the Board or deemed appropriate by the Committee.

	Compound Annualized Returns				
	1	2	3	4	8
Total Fund	**-4.4**	**0.9**	**5.5**	**6.4**	**8.9**
Policy Return	-4.3	0.7	4.7	6.2	9.1
CPI	0.7	2.0	2.2	1.9	1.5
Short Term	**4.7**	**5.2**	**5.2**	**5.1**	**5.3**
SC 91 Day T-bill	4.7	5.1	5.0	4.9	5.1
Fixed Income	**8.7**	**9.8**	**6.1**	**6.9**	**8.2**
SC Bond Universe	8.1	9.2	5.6	6.5	7.8
Real Return Bonds	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**
SC Bond Index	0.5	8.3	8.2	7.7	5.9
Canadian Equities	**-10.8**	**-1.2**	**8.0**	**5.3**	**10.0**
TSE 300	-12.6	-3.1	7.3	5.0	9.4
U.S. Equities	**-6.4**	**-5.2**	**0.5**	**6.8**	**12.8**
S&P 500	-6.4	-6.1	0.3	8.6	16.7
Non-North American Equities	**-16.0**	**-14.1**	**1.9**	**7.1**	**7.8**
MSCI EAFE	-16.5	-13.9	-3.8	3.5	6.1
Real Estate	**8.0**	**7.6**	**7.5**	**8.8**	**9.0**
Russell Canadian Property Index	10.3	11.1	10.9	12.2	10.0

Investment Policy

The Plan's Investment Policy sets the framework within which Plan assets are to be invested in order to earn the best possible return based on a level of risk acceptable to the Board. Given market conditions, the Investment Committee was pro-active during the year to ensure risk levels were appropriate.

During 2000, the Committee spent considerable time reviewing all aspects of the investment function, resulting in a substantially revised Investment Policy. The Committee also identified several other areas for review and recommendation in 2001:

- currency hedging;
- active management versus passive management; and
- limits on single equity issues.

Currency Hedging

With changes to the Investment Policy in late 2000, the equity component was split into a weighting of 19% Canadian, 20% U.S. and 20% Non-North American. The Committee reviewed the implications of currency exposure given this new weighting. Based on analysis by investment professionals, it was determined that any foreign holdings over 30% should have a form of currency hedge. As it is more difficult as well as expensive to hedge multiple currencies at the same time – and recognizing the U.S. economy has a significant impact on the Canadian economy – the Committee recommended that a hedge be established on the U.S. equity component. Hence, the hedge applies to half of the U.S. equity component, which represents the amount over 30% of foreign holdings. Approved by the Board, this recommendation is now incorporated in PSPP's investment program.

Active/Passive Split Review

The Committee also reviewed the split between active and passively managed investments. The Fund's return objective is 50 basis points over the policy benchmark. In order to meet our objective of 50 basis points (0.05%) above the policy benchmark, the Committee decided to shift to more actively managed products. Consequently, the Board approved the Committee's recommendation to increase the weightings of actively managed products in the investment portfolio.

Holding Limits on Single Issues

In recent years, single equity issues (for instance, Nortel Networks Corp. in the Canadian equity market) have dominated market weightings. With domination of one stock comes increased risk to the Fund. While the shift to a more equal weighting between Canadian, U.S. and Non-North American equities helped to mitigate some of the risk, the Committee felt that further measures were required. The Committee's recommendation, which was approved by the Board, was to set up limits such that, on either an actual or policy basis, the total value of a single equity issue would not exceed 10% of the total value of an asset class. A 5% upper tolerance limit is now permitted for re-balancing the holding of a security, with such re-balancing to occur on a quarterly basis rather than when the limit is exceeded. Re-balancing at a quarter-end allows the investment manager some flexibility and time to better plan its re-balancing strategy.

These changes did not have an impact on the Board's asset mix policy shown on page 12:

investment report cont'd...

	Policy Asset Mix		Actual	
	2001	2000	2001	2000
Fixed Income				
Cash & Short term	2.0%	3.0%	1.6%	2.2%
Long term	27.0%	42.0%	27.3%	41.1%
Real Return Bonds	6.0%	-	5.6%	-
Total	35.0%	45.0%	34.5%	43.3%
Equities				
Canadian	19.0%	22.0%	19.3%	21.5%
United States	20.0%	15.0%	20.6%	15.4%
Non-North American	20.0%	15.0%	20.0%	16.3%
Real Estate	6.0%	3.0%	5.6%	3.5%
Total	65.0%	55.0%	65.5%	56.7%

Implementation of Investment Policy

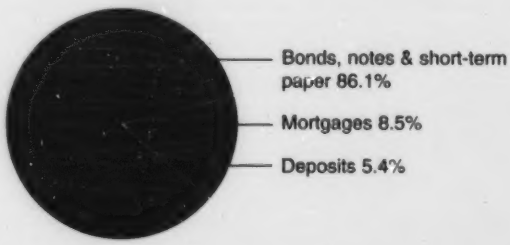
Investments are made through the Investment Management Division of Alberta Revenue (IMD), which provides a range of investment products and services used by the Plan. The key to maintaining this relationship over time is successful investment performance and satisfaction with the service provided by IMD. Each product provided by IMD and the overall performance are measured against a clearly-defined benchmark. Performance is reviewed quarterly with emphasis on one-year and four-year time periods.

The Board is pleased that in recent years IMD has made positive moves to its investment structure to add value relative to the policy benchmark. These improvements have come without a corresponding increase in investment management fees. This was verified through an independent analysis of IMD's operations, which showed that the fees paid by the Fund are lower than other Funds of similar size and that the manager added an acceptable amount of value to the Fund. On average, IMD charges the PSPP fund 11 basis points (0.011%) for investment management.

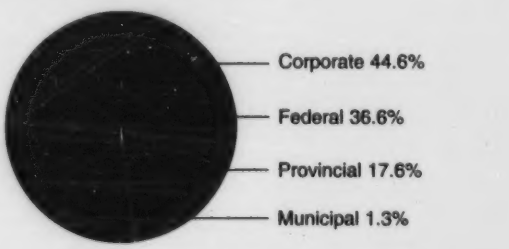
Fixed Income Investments

Managed internally by IMD, the fixed income component has allocations to bonds, mortgages, real return bonds and cash.

Summary of Fixed Income Holdings
(by security type)



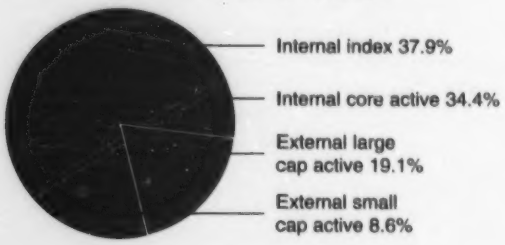
Summary of Fixed Income Holdings
(issued & guaranteed by)



Overall, fixed income investments marginally outperformed their benchmark. Long-term fixed income returned 8.7% versus the ScotiaCapital Bond Universe return of 8.1%. The cash and short-term component's return of 4.7% equaled that of the ScotiaCapital 91-Day T-bill Index.

Canadian Equity Investments

Summary of Canadian Equity Holdings



Top 10 Canadian Equity Holdings

Company	% of Pool Holding
Nortel Networks	4.8%
BCE Inc.	4.1%
Royal Bank of Canada	4.0%
Toronto Dominion Bank	3.8%
Bank of Nova Scotia	3.4%
Manulife Financial Corp.	3.1%
Canadian Imperial Bank of Commerce	2.6%
Bank of Montreal	2.3%
Sun Life Financial Services	2.2%
Bombardier Inc.	2.1%

The Plan invests in Canadian equities through several strategies, including both indexed and active mandates. TSE 300 index and core strategies are managed directly (internally) by IMD while the large cap active strategy, which invests in companies with a large market capitalization, and the small cap active strategy are managed by external investment advisors.

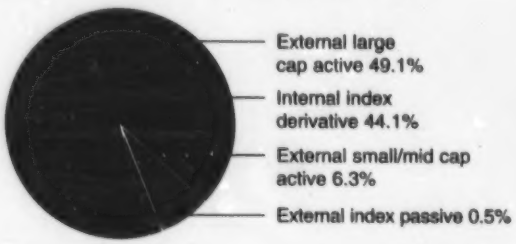
The total Canadian equity return was -10.8% versus -12.6% for the TSE 300 index. The full TSE 300 index strategy is intended to replicate the return of the TSE 300 market index, but in 2001 it managed an outperformance of 50 basis points. The internally managed core product returned -16.7%. However, underperformance in this product was more than offset by the externally managed products. The external large cap managers returned -3.2%, 940 basis points over the TSE 300 return. Similarly, the external small cap managers outperformed the Nesbitt Burns Small Cap Index by 7.9%, returning 11.4%.

Foreign Equity Investments

The foreign equity allocation was divided by policy into allocations to the U.S. and to Non-North American equity markets. Within the Non-North American segment, mandates are divided into either regional (e.g. Europe) where the manager invests solely within the region, or multi-regional (e.g. Europe, Australia and Far East) where the manager may invest across the different regions.

U.S. Equities

Summary of United States Equity Holdings


External large cap active 49.1%
Internal index derivative 44.1%
External small/mid cap active 6.3%
External index passive 0.5%

Top 10 U.S. Equity Holdings

Company	% of Pool Holding
General Electric Co.	3.0%
Microsoft Inc.	3.0%
Citigroup Inc.	2.9%
Pfizer Inc.	2.3%
Exxon Mobil Corp.	2.3%
American International Group Inc.	1.8%
Verizon Communications	1.6%
AOL Time Warner Inc.	1.5%
Intel Corp.	1.4%
Cisco Systems Inc.	1.4%

The Plan's investments in the U.S. are allocated roughly half-and-half to index and active strategies. A significant portion has been invested in the internally managed derivative product, which is designed to manage the Fund's exposure to foreign equity relative to the federal *Income Tax Act* limits.

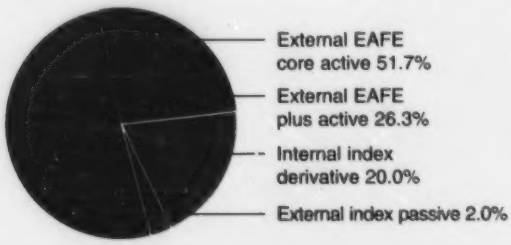
investment report cont'd...

While these limits were increased in 2000 and on January 1 2001, the derivative structures were retained as the policy allocation to foreign equity has been increased. The remainder is allocated to external investment managers.

For 2001, PSPP's U.S. equity exposure returned -6.4%, which was equal to the Standard and Poor's (S&P) 500 return (in Canadian dollar terms). The internally managed derivative product returned -6.7% while the U.S. replication passive product had a return of -6.5%. The U.S. active product returned -8.5%.

Non-North American Equities

Summary of Non-North American Equity Holdings



Top 10 Non-North American Equity Holdings

Company	% of Pool Holding
Vodafone Group	2.7%
Glaxosmithkline	1.2%
Total Fina Elf	1.7%
ENI	1.4%
Aventis	1.4%
Nestle	1.3%
UBS AG	1.2%
Royal Bk Scot Grp	1.2%
BNP Paribas	1.2%
Telephonica	1.1%

The Non-North American equity component includes an allocation to both developed and emerging markets. Index-based strategies are allocated 22%, with a portion in a derivative product to manage the Fund's exposure to foreign equity relative to the federal *Income Tax Act* limits.

The remaining 78% (including all of the emerging market allocation) are allocated to external active managers.

Non-North American equity markets were considerably weaker, with the MSCI EAFE (Europe, Australia and Far East) losing 16.5%. EAFE equities in total returned -16.0%. This outperformance is mostly attributable to the internal EAFE structured equity pool, which returned -15.3%. The emerging markets component returned 4.4% versus its benchmark return of 3.8%.

Real Estate Investments

The real estate component provides diversification relative to the equity and fixed income markets. The Plan's investments are primarily in a mix of retail, office and industrial properties in major Canadian urban areas. The focus is on quality, featuring strong locations and tenants.

The real estate return in 2001 was 8.0%. Performance of the real estate component is measured against the Russell Canadian Property Index. The Russell Index is based on net operating income and omits major expenses such as capital expenditures and tenant improvements. In contrast, PSPP returns are calculated after all expenses have been deducted. The Russell Index returned 10.3%. If PSPP's real estate returns had been calculated on the same basis, the Fund's real estate return would have been 11.7% for the year and would have added 20 basis points to the total Fund return.

Summary

The Board, through its Investment Committee, looks forward to continuing the positive working relationship with IMD to enable the Plan to meets its future funding obligations. By proactively reviewing the Plan's Investment Policy, the Board believes that it can work towards ensuring the long-term stability of the Fund and the future of the Plan.

administration report

Alberta Pensions Administration Corporation (APA) provides administration for the PSPP by collecting contributions and keeping accurate and secure records, as well as paying benefits to pensioners and members who are leaving the Plan. APA also provides Plan information to members and employers while supporting the activities of the Board. One of the largest public sector pension plan administrators in Canada, APA administers seven statutory pension plans under the direction of four pension boards and the Government of Alberta, as well as two supplementary retirement plans and one trusteed plan. The corporation serves 464 employers and approximately 136,000 active members, 52,000 pensioners and 27,000 members who have chosen to defer their benefits.

During the year APA focussed on two basic goals: 1) providing high quality service to client pension plans; and 2) achieving progress targets in preparation for successful implementation of the APEX (Alberta Pensions Excellence) project.

APEX Project for a New Pension Administration System

The APEX project officially began in April, 2001 after signing contracts with IBM Canada Ltd. as the Integration Company and CPAS Systems Inc. as pension software provider. At year-end, the project was on schedule and within its budget. Len Pederson, the PSP Board's representative on the APEX Strategy Committee, is looking after PSPP's interests in the project.

PSPP will go on-line with the new APEX system in November, 2002. To prepare employers for APEX, they were contacted in January, 2002 with information about data input required from them, and upcoming stages of the project.

In February, 2002, Sierra Systems Group Inc. won the contract for the APEX Web Services portion of the project. Through the Web Services project, external stakeholders will obtain information on-line from APA, as well as conduct business transactions and communicate with APA regarding pension accounts.

Maintaining and Improving Service

System changes

While a number of plan changes await the new APEX system, the current system was adapted as required in 2001 to maintain service and implement essential plan changes. Included among these was the increase, on an ad hoc basis, of the cost-of-living-adjustment for PSPP pensions and deferred accounts in 2002 to 70% of the Alberta Consumer Price Index from 60%.

Performance Measurements

APA's service performance improved during 2001 as a result of hiring and training new staff in the first part of the year. Staff reached a full complement by the end of the second quarter. However, due to lower performance ratings in the first and second quarter, several performance measures did not meet 2001 targets at the end of the year.

Services that met or exceeded their targets included termination payments, external reciprocal transfers, payment of pension amounts, retirement options, administering direct deposit payments, telephone inquiries and responses to written inquiries.

Measures below standard included pension estimates, optional service costings, appeals, internal reciprocal transfers and acknowledgement of written inquiries. All major areas of service exceeded performance standards by the fourth quarter.

Higher volumes than the previous year affected several service results. As in past years, volumes of major pension services tend to peak in the first months of the year. At year end, APA met the target of providing retirement options within five working days 90% of the time, despite 36% higher volumes than in 2000. The year also saw a 17% increase in optional service costings. E-mailed questions received increased from 393 in 2000 to 913 in 2001.

At the end of the first quarter, 78% of member annual statements were sent to employers to distribute to members, surpassing the goal of 75%. All of the statements were distributed by the end of the second quarter.

PSPP/LAPP Transfer Window

In the last six months of 2001 there was a window of opportunity to consolidate qualifying PSPP and Local Authorities Pension Plan (LAPP) pension accounts at no cost to the member. Recommended by the two boards and approved by the provincial cabinet, the window applied to holders of pension accounts with both LAPP and PSPP who left funds with either of the plans after leaving employment between January 1, 1994 and December 31, 2000. Both boards wanted to ensure that employees who moved from one plan to the other due to provincial restructuring did not have their pensions adversely affected. A total of 706 applications for transfer met the requirements, with 30% consolidating in PSPP and 70% in LAPP – reflecting the difference in size of the plans and the movement in government towards regionalization and local authorities.

In conjunction with the transfer opportunity, APA automatically restored service or provided refunds to 180 plan members who reciprocally transferred from one plan to the other in the 1994-2000 period. These members, as well as those who transferred in the window, will have all service recognized in their 2001 member statement.

Service Agreements

In 2001 the Board signed service agreements with both IMD and APA. These will assist in establishing an ongoing evaluation process for monitoring performance benchmarks and standards identified in the agreements.

The agreement with APA specifies core and non-core administration services. As a result, the Board has more flexibility to obtain expanded service offerings, and APA is able to plan better to deliver such services.

Surveys

Results of the annual Quantitative Service Measurement (QSM) survey of Canadian public sector pension administrators showed APA continues to be one of the most cost-effective pension plan administrators of similar size. APA delivered services at a cost 7% lower than the QSM average. Service standards also compare favorably with other QSM participants.

Results of the annual Employer Survey – as well as new surveys conducted of board members, plan members and pensioners – were tabulated and reported by a professional research firm. They will serve as benchmarks for assessing service performance, trends and needs in the coming years.

Employer Survey

One hundred and fifty-eight employers (34% of the total served) responded to the employer survey conducted in December, 2001. The overall level of satisfaction in all the plans was 26% very satisfied and 66% satisfied (92% total) in 2001, compared to 33% very satisfied and 57% (90% total) in 2000, and 24% very satisfied and 58% satisfied (82% total) in 1999.

Below are the overall averages of employer survey responses regarding pension services, service delivery and communications.

2001 Employer Survey*
2000 results in ( )

	Very Satisfied	Satisfied	Total
Pension services	28% (33%)	67% (57%)	95% (90%)
Delivery	41% (38%)	53% (52%)	94% (90%)
Communications	21% (29%)	75% (67%)	96% (96%)

** all plans*

Board Member Survey

In December, 2001 APA surveyed the members of the five pension boards it serves. Twenty-seven board members participated (63% response rate). The survey included an evaluation of APA's timeliness, accuracy, clarity and advice from a board member's perspective.

Board Members' Ratings of APA Service*

	Very Satisfied	Satisfied	Total
Board support	39%	47%	86%
Policy and legal	8%	53%	61%
Communications	19%	60%	79%
General satisfaction with service from APA	10%	65%	75%

** all plans*

Member Survey

In November and December, APA mailed service satisfaction surveys to members of the plans served by APA. Survey questionnaires were given to members who requested and received either a pension estimate, an optional service purchase calculation or a retirement options package. One hundred and five of 474 questionnaires came back (22% response rate), including 25 from PSPP members. The overall level of satisfaction among members of all plans was 34% very satisfied and 51% satisfied. Ratings of PSPP members only are below.

2001 PSPP Member Survey

	Very Satisfied	Satisfied	Total
Courteous service	64%	32%	96%
Accurate estimate	48%	52%	100%
Timely estimate	54%	38%	92%

Pensioner Survey

A survey of pensioners in December had a 62% response rate, including 415 PSPP pensioners. Nearly half (47%) of PSPP pensioners gave very satisfied ratings for each service element and virtually all (94% to 99%) pensioners provided either satisfied or very satisfied ratings. The overall average was 60% very satisfied and 36% satisfied, a total of 96%.

Communications

In January, 2001 the first issue of the PSP Board's pensioner newsletter was produced and mailed to pensioners. In December, the second annual member newsletter was produced and distributed through employers. These newsletters are provided in the PSPP Communications Plan to increase stakeholders' awareness and understanding of their pension plan.

It was the first full year of operation for the PSPP Web site at www.pspp.ca. The site received 31,512 visits, up from 14,690 in 2000. In the 2001 employer survey, 92% of the PSPP employers said they visited the site at least every three months, and 76% said they referred plan members to the site at least every three months. In the 2001 member survey, 44% of PSPP members said they had accessed the PSPP Web site. Eighteen per cent of PSPP members were very satisfied with Web site content and 77% satisfied.

In response to a request from the Board, APA surveyed new PSPP pensioners who went through the retirement process in mid-2001. Rating overall service provided by APA as they went to pension, 59% said it was excellent, 33% good, 6% fair and 3% poor. Further results of the survey are reported in the December, 2001 member newsletter and the January, 2002 pensioner newsletter that are available on the PSPP Web site.

2001 Survey of APA Service to PSPP Pensioners

	Very Satisfied	Satisfied	Dissatisfied	Very Dissatisfied
Accurate payments	72%	27%	1%	0%
Payments on time	78%	21%	1%	0%
Accurate written information	55%	41%	3%	1%
Timely written information	50%	46%	4%	1%
Accurate telephone support	52%	43%	3%	2%
Timely telephone support	47%	47%	4%	2%
Courtesy on the telephone	67%	29%	2%	2%
Overall average	**60%**	**36%**	**2%**	**1%**

administration report cont'd...

During the year, APA provided 39 employee seminars for 1,112 PSPP members. There were also 145 one-on-one sessions in conjunction with the seminars. As well, 151 participants attended five PSPP employer workshops.

From surveys filled out after the sessions, the overall response for employee seminars put on by APA for all plans was 71% very satisfied and 29% satisfied. Overall ratings for employer workshops were 76% very satisfied and 24% satisfied. One-on-one session participants were 67% very satisfied and 33% satisfied.

Organizational Transformation

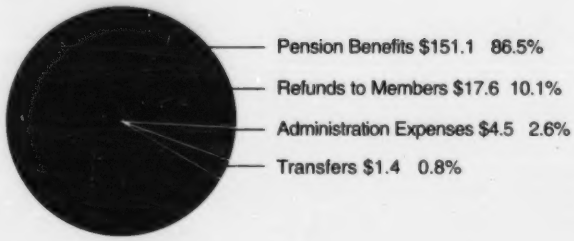
APA employees received an average of 56 hours of training, up from 42 hours in 2000.

In preparation for dramatic changes associated with the APEX system, transition communication and training commenced in the second half of 2001. The transition initiatives will ensure APA has aligned its people, processes and systems so they are ready to work with the new pension system and adopt a new way of doing business.

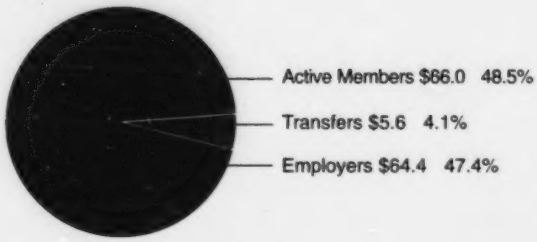
APA re-evaluated all of its jobs and established 12 position levels in the corporation. The position levels form part of the new master agreement with the Alberta Union of Provincial Employees Local #118. Signed in January 2002, the collective agreement was effective September 1, 2001.

Statistics

Pension Payments



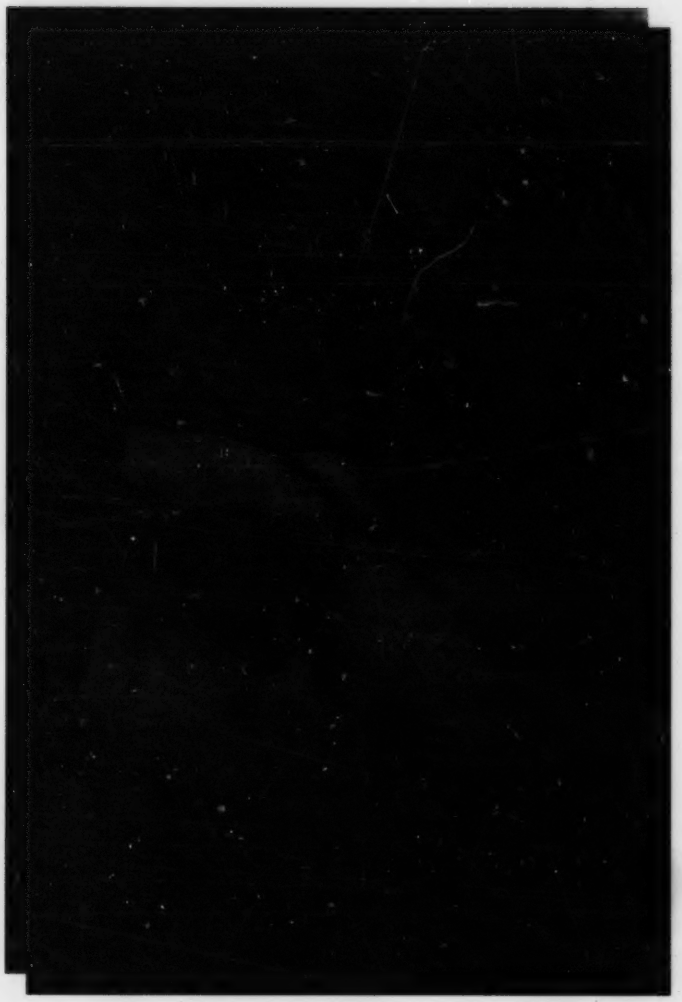
Pension Contributions



Expenses

In 2001, PSPP's expenses included general administration costs, investment costs and actuarial fees totalling $75 per member, compared to $65 per member in 2000. The higher costs reflect PSPP's contributions to the APEX project.

financial statements



Tipis at Head-Smashed-In Buffalo Jump, Alberta.

Based on an actuarial extrapolation, the Plan had an actuarial surplus of $320 million as of December 31, 2001.

management's responsibility for financial reporting

The financial statements and information in the 2001 Annual Report are the responsibility of the Provincial Treasurer. These responsibilities are undertaken on behalf of the Minister of Finance by the Investment Management Division (IMD) of Alberta Revenue and Alberta Pensions Administration (APA) Corporation. The financial statements and information in the annual report have been approved by the Board.

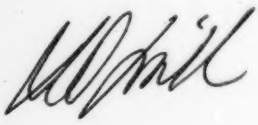
The financial statements have been prepared in conformity with Canadian generally accepted accounting principles and, of necessity, include some amounts that are based on estimates and judgements. Financial information presented in the 2001 Annual Report that relates to the operations and financial position of the Public Service Pension Plan is consistent with that in the financial statements.

To discharge their responsibility for the integrity and objectivity of financial reporting, the Minister of Finance and APA maintain a system of internal accounting controls comprising written policies, standards and procedures, and a formal authorization structure.

These systems are designed to provide management with reasonable assurance that transactions are properly authorized, reliable financial records are maintained and assets are adequately accounted for and safeguarded.

The Auditor General of Alberta, the Plan's external auditor, provides an independent audit of operations, investments and financial statements. His examination is conducted in accordance with Canadian generally accepted auditing standards and includes tests and other procedures that allow him to report on the fairness of the financial statements prepared by management.

Peter Kruselnicki, P.Eng.
Deputy Minister of Finance



David Smith
Chief Executive Officer
Alberta Pensions Administration Corporation

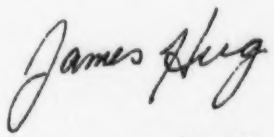
auditor's report

To the Public Service Pension Board

I have audited the statement of net assets available for benefits and liability for accrued benefits of the Public Service Pension Plan as at December 31, 2001 and the statements of changes in net assets available for benefits, changes in liability for accrued benefits and changes in actuarial surplus for the year then ended. These financial statements are the responsibility of the Plan's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Plan as at December 31, 2001 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.



Edmonton, Alberta
March 14, 2002

Jim Hug, CA
Acting Auditor General

financial statements

Statement of Net Assets Available for Benefits and Liability for Accrued Benefits

As at December 31, 2001
($ thousands)

	2001	2000
Net assets available for benefits		
Assets		
Investments (Note 3)	3,826,112	$4,044,661
Accounts receivable (Note 5)	12,777	9,547
Accrued investment income	693	-
	3,839,582	4,054,208
Liabilities		
Accounts payable	3,095	1,524
Net assets available for benefits	3,836,487	4,052,684
Actuarial adjustment for fluctuations in fair value of net assets (Note 2.6)	329,000	(70,600)
Actuarial value of net assets available for benefits	4,165,487	3,982,084
Liability for accrued benefits		
Actuarial value of accrued benefits (Note 4)	3,845,000	3,347,000
Actuarial surplus	$ 320,487	$ 635,084

See accompanying notes and schedules

Statement of Changes in Net Assets Available for Benefits

For the year ended December 31, 2001
($ thousands)

	2001	2000
Increase in assets		
Contributions		
Current and optional service		
Employers	64,433	$ 58,851
Employees	66,026	59,864
Transfers from other plans	5,553	3,964
	136,012	122,679
Investment income (Note 8)	-	263,443
	136,012	386,122
Decrease in assets		
Investment loss (Note 8)	177,681	-
Pension benefits	151,031	144,705
Refunds to members	17,608	18,880
Transfers to other plans	1,414	2,473
Group transfer	-	289,286
Administration expenses (Note 9)	4,475	3,714
	352,209	459,058
Decrease in net assets	(216,197)	(72,936)
Net assets available for benefits at beginning of year	4,052,684	4,125,620
Net assets available for benefits at end of year	$ 3,836,487	$ 4,052,684

See accompanying notes and schedules.

Statement of Changes in Liability for Accrued Benefits

For the year ended December 31, 2001
($ thousands)

	2001	2000
Increase in liability for accrued benefits		
Interest accrued on benefits	261,000	$ 235,000
Benefits earned	134,000	122,000
Changes in actuarial assumptions (Note 7)	137,000	-
Experience loss (Note 7)	136,000	-
	668,000	357,000
Decrease in liability for accrued benefits		
Benefits paid	170,000	166,000
Group transfer	-	250,000
	170,000	416,000
Net increase (decrease) in liability for accrued benefits	498,000	(59,000)
Liability for accrued benefits at beginning of year	3,347,000	3,406,000
Liability for accrued benefits at end of year (Note 7)	$ 3,845,000	$3,347,000

See accompanying notes and schedules

Statement of Changes in Actuarial Surplus

For the year ended December 31, 2001
($ thousands)

	2001	2000
Actuarial surplus at beginning of year	$ 635,084	$ 517,020
Decrease in net assets available for benefits	(216,197)	(72,936)
Net change in actuarial adjustment for fluctuation in fair value of net assets	399,600	132,000
Net decrease (increase) in liability for accrued benefits	(498,000)	59,000
Actuarial surplus at end of year	$ 320,487	$ 635,084

See accompanying notes and schedules.

notes to the financial statements

Note 1

Summary Description of the Plan

The following description of the Public Service Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Chapter P-41, Revised Statutes of Alberta 2000 and Alberta Regulation 368/93, as amended.

(a) General

The Plan is a contributory defined benefit pension plan for eligible employees of the Province of Alberta, approved provincial agencies and public bodies.

(b) Funding Policy

Current service costs are funded equally by employers and employees at rates, which are expected to provide for all benefits payable under the Plan. There were no changes in rates for 2001. The rates in effect at December 31, 2001 were 4.675% of pensionable salary up to the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 6.55% of the excess. The rates are to be reviewed at least once every three years by the Board based on recommendations of the Plan's actuary.

(c) Retirement Benefits

The Plan provides a pension of 1.4% for each year of pensionable service based on average salary of the highest five consecutive years up to the YMPE and 2.0% on the excess. The maximum service allowable under the Plan is 35 years. Pensions are payable to members who retire with at least two years of service and either have attained age 65, or have attained age 55 and the sum of their age and years of service equals 85. Reduced pensions are payable to members at age 55 or older retiring early with a minimum of two years of service.

(d) Termination Benefits

Members who terminate with at least two years of service and are not immediately entitled to a pension may receive the commuted value for all service plus excess contributions if applicable, which is subject to lock-in provisions. Alternatively, they may elect to receive a deferred pension. Members who terminate with less than two years of service receive a refund of their contributions and interest.

(e) Disability Benefits

Unreduced pensions are payable to members who become totally disabled and have at least two years of service. Reduced pensions are payable to members who become partially disabled and have at least two years of service.

(f) Death Benefits

Death benefits are payable on the death of a member. If the member has at least two years of service, a surviving spouse may choose to receive a survivor pension. For a beneficiary other than a spouse or where service is less than two years, a lump sum payment must be chosen.

(g) Optional Service and Transfers

All optional service purchases are to be cost-neutral to the Plan.

Reciprocal agreements provide that transferred-in service be on an actuarial reserve basis and transfers-out receive the greater of the termination benefits or commuted value for all service.

(h) Cost-of-Living Adjustments

Pensions payable are increased each year by an amount equal to at least 60% of the increase in the Alberta Consumer Price Index (CPI). An additional increase of 10% of CPI has been approved only for 2002.

(i) Income Taxes

The Plan is a registered pension plan as defined in the *Income Tax Act* and the Plan is not subject to income taxes. The Plan's registration number is 0208769.

Note 2

Summary of Significant Accounting Policies and Reporting Practices

(a) Basis of Presentation

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

Plan investments are held in pooled investment funds administered by Alberta Revenue. Pooled investment funds have a market-based unit value that is used to allocate income to participants and to value purchases and sales of pool units.

The Plan's respective percentage ownership in pooled investment funds at December 31 was as follows:

	% Ownership	
	2001	2000
Internally Managed Pooled Investment Funds		
Canadian Dollar Public Bond Pool	11.0	16.7
Canadian Pooled Equities Fund	11.6	10.7
Domestic Passive Equity Pooled Fund	10.4	19.1
EAFE Structured Equity Pooled Fund	38.9	31.4
Private Mortgage Pool	12.9	17.0
Private Real Estate Pool	13.0	10.7
U.S. Passive Equity Pooled Fund	28.9	15.5
United States Pooled Equity Fund	15.9	15.9
Floating Rate Note Pool	-	1.0
Externally Managed Pooled Investment Funds		
Canadian Large Cap Equity Pool	8.1	11.0
Canadian Small Cap Equity Pool	15.1	9.4
EAFE Core Equity Pool	15.5	14.9
EAFE Passive Equity Pool	1.7	8.3
EAFE Plus Equity Pool	15.4	14.2
U.S. Large Cap Equity Pool	17.3	14.8
U.S. Passive Equity Pool	0.3	14.9
U.S. Mid/Small Cap Equity Pool	15.3	14.8

(b) Valuation of Assets and Liabilities

Investments are stated at fair value. The methods used to determine the fair value of investments held either by the Plan or by pooled investment funds are explained in the following paragraphs:

Short-term securities, public fixed income securities and equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using Government of Canada bond rates adjusted for a risk premium estimated by management.

Real estate investments are reported at their most recent appraised value net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers.

The fair values of deposits, receivables, accrued investment income and payables are estimated to approximate their book values.

(c) Actuarial Value of Net Assets Available for Benefits

To reduce the impact of market volatility on the Plan's funded status, asset values are adjusted for fluctuations in fair value. Assets for the previous two years are projected to increase at the rate of return assumed in the actuarial valuation. The actuarial value of assets is determined by averaging three years' values consisting of current market value and asset values projected from the year-end market values for the two previous years.

(d) Income Recognition

Dividends are accrued on the ex-dividend date. Income from other investments is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

(e) Foreign Exchange

Foreign currency transactions are translated into Canadian dollars using average rates of exchange, except for hedged foreign currency transactions which are translated at rates of exchange established by the terms of the forward exchange contracts. At year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of investment income.

(f) Valuation of Derivative Contracts

Derivative contracts (see Note 5) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, equity index futures contracts and cross-currency interest rate swaps. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

Equity and bond index swaps are valued based on changes in the appropriate market index net of accrued floating rate interest.

notes to the financial statements cont'd...

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

Interest rate swaps are valued based on discounted cash flows using current market yields.

Forward foreign exchange contracts and equity index future contracts are based on quoted market prices.

The value of cross-currency interest rate swaps is included with the value of the underlying security. Cross-currency fixed to fixed interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields. Cross-currency fixed to floating interest rate swaps are valued at the principal amount plus accrued interest.

Income and expense from derivative contracts are accrued as earned and included in investment income. Gains and losses on forward foreign exchange contracts are recognized concurrently with changes in fair value.

Note 3

Investments (Schedules A to D)

	2001 ($ thousands)	%	2000 ($ thousands)	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 61,481	1.6	$ 89,165	2.2
Canadian Dollar Public Bond Pool (b)	926,422	24.2	1,474,986	36.5
Real Rate of Return Bonds (c)	214,264	5.6	-	-
Private Mortgage Pool (d)	118,586	3.1	164,638	4.1
Floating Rate Note Pool	-	-	19,558	0.5
Total fixed income securities	1,320,753	34.5	1,748,347	43.3
Canadian Equities (Schedule B)				
Domestic Passive Equity Pooled Fund (e)	280,743	7.3	433,018	10.7
Canadian Pooled Equities Fund (f)	253,798	6.6	262,324	6.5
External Managers				
Canadian Large Cap Equity Pool (g)	141,334	3.7	131,684	3.2
Canadian Small Cap Equity Pool (h)	63,970	1.7	45,098	1.1
	739,845	19.3	872,124	21.5
United States Equities (Schedule C)				
External Managers				
U.S. Large Cap Equity Pool (i)	386,603	10.1	261,318	6.4
U.S. Mid/Small Cap Equity Pool (j)	49,337	1.3	37,272	0.9
U.S. Passive Equity Pool (k)	4,258	0.1	168,601	4.2
U.S. Passive Equity Pooled Fund (k)	347,882	9.1	156,352	3.9
United States Pooled Equities Fund	531	-	592	-
	788,611	20.6	624,135	15.4
Non-North American Equities (Schedule D)				
External Managers				
EAFE Core Equity Pool (l)	395,995	10.4	291,725	7.2
EAFE Plus Equity Pool (l)	200,728	5.2	128,788	3.2
EAFE Passive Equity Pool (m)	14,921	0.4	91,644	2.3
Emerging Markets Equity Pool	2	-	7	-
EAFE Structured Equity Pooled Fund (n)	152,742	4.0	145,585	3.6
	764,388	20.0	657,749	16.3
Equities in Real Estate				
Private Real Estate Pool (o)	212,515	5.6	142,306	3.5
Total Equities	2,505,359	65.5	2,296,314	56.7
Total Investments	$ 3,826,112	100.0	$ 4,044,661	100.0

Note 3 Investments (Schedules A to D) (continued)

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of five years. As at December 31, 2001, securities held by the Fund have an average effective market yield of 2.24% per annum (2000: 5.99% per annum).

(b) The Canadian Dollar Public Bond Pool is managed with the objective of providing competitive returns comparable to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The portfolio is comprised of high quality Canadian fixed income instruments and debt related derivatives. Competitive returns are achieved through management of the portfolio duration and sector rotation. As at December 31, 2001, securities held by the Pool have an average effective market yield of 5.34% per annum (2000: 6.07% per annum) and the following term structure based on principal amount: under 1 year 4% (2000: 6%); 1 to 5 years 35% (2000: 37%); 6 to 10 years 31% (2000: 28%); 11 to 20 years 12% (2000: 15%); over 20 years 18% (2000: 14%).

(c) Real rate of return bonds are issued or guaranteed by the Government of Canada and bear interest at a fixed rate adjusted for inflation. As at December 31, 2001, the bonds have an effective market yield of 3.77% per annum and the following term structure based on principal amount: 10 to 20 years 35%; over 20 years 65%.

(d) The Private Mortgage Pool is managed with the objective of providing investment returns higher than the Scotia Capital Universe Bond Index over the long term. The portfolio is comprised primarily of high-quality commercial mortgage loans and provincial bond residuals. In order to reduce risk, the pool only invests in loans insured by a federal agency and first-mortgage loans that provide diversification by property usage. As at December 31, 2001, mortgages held by the pool have an average effective market yield of 6.47 % per annum (2000: 7.27% per annum) and the following term structure based on principal amount. Under 1 year 15% (2000: 8%); 1 to 5 years 17 % (2000: 27%); 6 to 10 years 22% (2000: 28%); 11 to 20 years 26% (2000: 23%); and over 20 years 20% (2000: 14%).

(e) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the Toronto Stock Exchange (TSE) 300 Index. The portfolio is comprised of both publicly traded Canadian equities and structured investments replicating the TSE 300 Index.

(f) The Canadian Pooled Equities Fund is managed with the objective of providing competitive returns comparable to the total return of the TSE 300 Index over a four-year period while maintaining preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations. Risk is reduced by prudent security selection and sector rotation.

(g) The External Managers Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities. Each portfolio is actively managed by an external manager with expertise in the Canadian large cap equity market. The performance objective is to provide investment returns higher than the total return of the TSE 300 Index over a four-year period. Return volatility is reduced through multiple manager investment style and large market capitalization focus.

(h) The External Managers Canadian Small Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities with a market capitalization of up to 0.15% of the TSE 300 Index total market capitalization at time of purchase. Each portfolio is actively managed by an external manager with expertise in the Canadian small cap equity market. The performance objective is to provide returns higher than the total return of the TSE 300 Index over a four-year period and returns higher than the Nesbitt Burns Small Cap Index over the near term. Return volatility is reduced through multiple manager investment style and small market capitalization focus.

(i) The External Managers U.S. Large Cap Equity Pool consists of multiple portfolios of publicly traded United States equities. Each portfolio is actively managed by an external manager with expertise in the U.S. large cap equity market. The performance objective is to provide returns higher than the total return of the Standard & Poor's (S&P) 500 index over a four-year period. Return volatility is reduced through multiple manager investment style and large market capitalization focus.

(j) The External Managers U.S. Mid/Small Cap Equity Pool consists of a single portfolio of publicly traded

notes to the financial statements cont'd...

Note 3 Investments (Schedules A to D) (continued)

United States equities. The portfolio is actively managed by an external manager with expertise in the mid and small cap U.S. equity markets. The performance objective is to provide returns higher than the total return of the Russell 2500 Index over a four-year period.

(k) The External Managers U.S. Passive Equity Pool consists of a single portfolio of publicly traded United States equities similar in weights to the S&P 500 Index. The portfolio is passively managed by an external manager with expertise in the U.S. equity market. The performance objective is to provide investment returns comparable to the total return of the S & P 500 Index over a four-year period.

The U.S. Passive Equity Pooled Fund is managed internally with the objective of attaining investment returns comparable to S & P 500 Total Return Index over a four-year period. The portfolio is comprised of publicly traded equities in the United States similar in weights to the S & P 500 Index. To enhance investment returns with no substantial increase in risks, the Pooled Fund also invests in futures, swaps and other structured investments.

(l) The External Managers EAFE Core and Plus Equity Pools consist of multiple portfolios of publicly traded Non-North American equities. Each core portfolio is actively managed by an external manager and has constraints on foreign currency management and deviations from the Morgan Stanley Capital International (MSCI) Europe, Australia and Far East (EAFE) Index asset mix by country. The EAFE Plus portfolios are actively managed by external managers with less constraints on country allocation, stock selection, currency management and investments in Emerging Markets. The performance objective is to provide investment returns higher than the total return of the MSCI EAFE Index over a four-year period. Return volatility is reduced through multiple manager investment style and market diversification.

(m) The External Managers EAFE Passive Equity Pool consists of a single portfolio of Non-North American publicly traded equities that replicate the MSCI EAFE index. The performance objective is to provide returns comparable to the total return of the MSCI EAFE index over a four- year period.

(n) The EAFE (Europe, Australia and Far East) Structured Equity Pooled Fund is internally managed with the objective of providing investment returns comparable to the total return of the MSCI EAFE Index. The Pool provides exposure to foreign markets in Europe, Australia and the Far East through the use of structured investments such as foreign equity index swaps. The Pooled Fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

(o) The Private Real Estate Pool is managed with the objective of providing investment returns higher than those attainable from the Russell Canadian Property Index over a four-year period or longer. Real estate is held through intermediary companies which have issued to the Pool, common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. The Pool is intended to provide diversification from the securities market.

Note 4

Investment Risk Management

Fair values of investments are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return on investments. In order to earn the best possible return at an acceptable level of risk, the Board has established a target policy asset mix of 35% fixed income instruments and 65% equities. Investment risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts are used to manage currency exposure in connection with securities purchased in foreign currency (see Note 5).

Note 5

Derivative Contracts

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Plan uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest and foreign currency risks and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

currencies. There are underlying securities supporting all swaps. Leveraging is not allowed.

Foreign exchange contracts are agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Stock futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of a specified stock index in the future.

The following is a summary of the Plan's proportionate share of the notional amount and net fair value of derivative contracts held by pooled funds at December 31, 2001.

	2001		2000	
	Notional Amount	Net Fair Value (a)	Notional Amount	Net Fair Value (a)
	($ thousands)			
Equity index swap contracts	$ 592,618	$ 21,096	$ 500,198	$ (11,137)
Bond index swap contracts	25,778	12	117,670	737
Interest rate swap contracts	155,007	(6,586)	137,427	(2,396)
Forward foreign exchange contracts	528,358	(1,609)	74,643	66
Equity index futures contracts	20,208	724	686	3
	1,321,969	$ 13,637	830,624	$ (12,727)
Cross-currency interest rate swap contracts (b)	377,329		396,757	
	$ 1,699,298		$1,227,381	

(a) The method of determining fair value of derivative contracts is described in Note 2 (f).

(b) Cross-currency interest rate swaps are valued as a package, which includes underlying securities. As at December 31, 2001 the combined value of cross-currency interest rate swaps and underlying securities amounted to $379,211,000 (2000 $400,384,000).

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped

The notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value). The Plan attempts to limit its credit exposure by dealing with counterparties believed to have good credit standing.

All derivative contracts mature within one year except for bond index swaps, cross-currency swaps and interest rate swaps with a notional amount of $193,963,000 (2000 $334,199,000) that mature between one and three years and $95,352,000 (2000 $148,323,000) that mature over three years.

Note 6

Accounts Receivable

	2001	2000
	($ thousands)	
Contributions Receivable		
Employers	$ 6,454	$ 4,936
Employees	6,038	4,611
Other Receivables	285	-
	$ 12,777	$ 9,547

Note 7

Actuarial Value of Accrued Benefits

(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 2000 by Buck Consultants Limited and was then extrapolated to December 31, 2001. The 2000 valuation was completed after the financial statements of the plan for 2000 were released. As a result, the differences between the actuarial valuation results and extrapolation results used in the 2000 financial statements are accounted for as changes in actuarial assumptions and experience losses in 2001.

The valuation as at December 31, 2000 was determined using the projected benefit method, based on service. The assumptions used in the valuation and extrapolation were developed as the best estimate of expected short-term and long-term market conditions and other future events. This estimate was, after consultation with the Plan's actuary, adopted by the Public Service Pension Board.

The major assumptions used were:

	December 31	
	2001	2000
	Extrapolation %	Valuation %
Investment return	7.25	7.25
Inflation rate	3.25	3.25
Salary escalation rate*	3.75	3.75
Pension cost of living increase as a percentage of Alberta Consumer Price Index	60	60

** Excludes merit and promotion.*

(b) Sensitivity of Changes in Major Assumptions

The Plan's future experience will inevitably differ, perhaps significantly, from these assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan. The following is a summary of the sensitivities of the Plan's surplus and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2001:

		Sensitivities	
	Changes in Assumptions %	Decrease in Plan Surplus ($ millions)	Increase in Current Service Cost as a % of Pensionable Earnings *
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	$ (254)	0.63%
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	(167)	0.84%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	(598)	2.19%

** The current service cost as % of pensionable earnings as determined by the December 31, 2000 valuation is 10.12%.*

Note 8

Investment (Loss) Income

Investment (loss) income is comprised of the following:

	2001	2000
	($ thousands)	
Net realized and unrealized (losses) gains on investments	$ (228,520)	$ 77,606
Derivative (loss) income	(103,374)	13,947
Interest income	110,708	146,477
Dividend income	36,602	20,532
Real estate income	10,578	7,717
Securities lending income	820	456
Pooled funds management and associated custodial fees	(4,495)	(3,292)
	$ (177,681)	$ 263,443

The following is a summary of the Plan's proportionate share of investment (loss) income by types of investments.

	2001	2000
	($ thousands)	
Deposits and fixed income securities	$ 92,507	$ 185,736
Canadian equities	(88,562)	180,010
Foreign equities:		
United States	(64,582)	(33,971)
Non-North American	(131,311)	(78,484)
Equities in Real estate	14,267	10,152
	$ (177,681)	$263,443

Note 9

Administration Expenses

	2001	2000
	($ thousands)	
General administration costs	$ 3,696	$ 2,839
Investment management costs	430	442
Board costs	173	159
Actuarial fees	147	251
Other professional fees	29	23
	$ 4,475	$ 3,714

General administration and Board costs were paid to Alberta Pensions Administration Corporation on a cost-recovery basis.

Investment management costs were paid to Alberta Revenue and do not include pooled funds management and associated custodial fees, which have been deducted in arriving at investment income.

In 2001, total administration expenses of $4,475,000 amounted to $75 per member (2000 $65 per member).

Note 10

Comparative Figures

Comparative figures have been restated to be consistent with the 2001 presentation.

Note 11

Responsibility for Financial Statements

These financial statements were approved by the Public Service Pension Board.

Schedule A

Schedule of Investments in Fixed Income Securities

December 31, 2001
($ thousands)

	Plan's Share	
	2001	2000
Deposit and short-term securities	$ 70,073	$ 115,816
Fixed Income Securities (a)		
Public		
Government of Canada, direct and guaranteed	453,404	380,178
Provincial		
Alberta, direct and guaranteed	3,240	4,953
Other, direct and guaranteed	214,888	320,681
Municipal	15,982	20,548
Corporate	320,185	547,258
Private		
Corporate	232,729	338,815
	1,240,428	1,612,433
Receivable from sale of investments and accrued investment income	11,175	20,637
Liabilities for investment purchases	(923)	(539)
	10,252	20,098
	$ 1,320,753	$ 1,748,347

(a) Fixed income securities held as at December 31, 2001 had an average effective market yield of 5.18% per annum (2000: 6.19% per annum). The following term structure of these securities as at December 31, 2001 is based on principal amount:

	2001	2000
	%	
under 1 year	4	6
1 to 5 years	28	36
6 to 10 years	25	28
11 to 20 years	17	16
over 20 years	26	14
	100	100

Schedule B

Schedule of Investments in Canadian Equities

December 31, 2001
($ thousands)

	Plan's Share	
	2001	2000
Deposit and short-term securities	$ 12,648	$ 6,702
Public Equities (a) (b)		
Communications and media	38,089	40,649
Conglomerates	11,480	30,350
Consumer products	39,697	40,873
Financial services	195,465	143,137
Gold and precious minerals	23,819	22,633
Industrial products	144,408	278,574
Merchandising	26,789	24,245
Metals and minerals	34,342	30,520
Oil and gas	86,517	104,820
Paper and forest products	18,316	20,649
Pipelines	15,818	62,855
Real estate and construction	6,054	10,399
Transportation and environmental services	21,781	9,387
Utilities	50,709	45,070
	713,284	864,161
Passive index	9,013	5,641
	722,297	869,802
Receivable from sale of investments and accrued investment income	8,989	3,231
Liabilities for investment purchases	(4,089)	(7,611)
	4,900	(4,380)
	$ 739,845	$ 872,124

(a) The Plan's net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $124,064,000 (2000 $192,147,000), which are used as underlying securities to support the notional amount of Canadian equity index swap contracts.

(b) The industrial classifications are those used by the Toronto Stock Exchange indices.

Schedule A

Schedule of Investments in Fixed Income Securities

December 31, 2001
($ thousands)

	Plan's Share	
	2001	2000
Deposit and short-term securities	$ 70,073	$ 115,816
Fixed Income Securities (a)		
Public		
Government of Canada, direct and guaranteed	453,404	380,178
Provincial		
Alberta, direct and guaranteed	3,240	4,953
Other, direct and guaranteed	214,888	320,681
Municipal	15,982	20,548
Corporate	320,185	547,258
Private		
Corporate	232,729	338,815
	1,240,428	1,612,433
Receivable from sale of investments and accrued investment income	11,175	20,637
Liabilities for investment purchases	(923)	(539)
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	2001	2000
	%	
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11 to 20 years	17	16
over 20 years	26	14
	100	100

Schedule B

Schedule of Investments in Canadian Equities

December 31, 2001
($ thousands)

	Plan's Share	
	2001	2000
Deposit and short-term securities	$ 12,648	$ 6,702
Public Equities (a) (b)		
Communications and media	38,089	40,649
Conglomerates	11,480	30,350
Consumer products	39,697	40,873
Financial services	195,465	143,137
Gold and precious minerals	23,819	22,633
Industrial products	144,408	278,574
Merchandising	26,789	24,245
Metals and minerals	34,342	30,520
Oil and gas	86,517	104,820
Paper and forest products	18,316	20,649
Pipelines	15,818	62,855
Real estate and construction	6,054	10,399
Transportation and environmental services	21,781	9,387
Utilities	50,709	45,070
	713,284	864,161
Passive index	9,013	5,641
	722,297	869,802
Receivable from sale of investments and accrued investment income	8,989	3,231
Liabilities for investment purchases	(4,089)	(7,611)
	4,900	(4,380)
	$ 739,845	$ 872,124

(a) The Plan's net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $124,064,000 (2000 $192,147,000), which are used as underlying securities to support the notional amount of Canadian equity index swap contracts.

(b) The industrial classifications are those used by the Toronto Stock Exchange indices.

Schedule C

Schedule of Investments in United States Equities

December 31, 2001
($ thousands)

	Plan's Share	
	2001	2000
Deposit and short-term securities	$ 4,007	$ 378
Public Equities (a) (b)		
Basic materials	33,402	25,237
Commercial services	21,533	15,525
Consumer cyclical	54,906	38,261
Consumer non-cyclical	61,345	44,390
Consumer services	47,026	32,991
Energy	53,572	41,952
Financial	149,799	125,424
Health care	114,765	86,849
Industrials	30,211	23,106
Technology	151,422	134,457
Telecommunications	36,992	28,637
Transport	4,155	5,413
Utilities	16,015	24,805
	775,143	627,047
Receivable from sale of investments and accrued investment income	11,329	2,231
Liabilities for investment purchases	(1,868)	(5,521)
	9,461	(3,290)
	$ 788,611	**$ 624,135**

(a) The Plan's net investment in United States public equities includes the fair value of deposits and floating rate notes, totalling $337,081,000 (2000 $159,456,000), which were used as underlying securities to support the notional amount of U.S. equity index swaps contracts and futures contracts.

(b) The industrial classifications are those used by Standard & Poor's indices.

Schedule D

Schedule of Investments in Non-North American Equities

December 31, 2001
($ thousands)

	Plan's Share	
	2001	2000
Deposit and short-term securities	$ 20,002	$ 6,223
Public Equities (a)		
Country		
United Kingdom	185,898	140,816
Japan	121,918	143,124
France	84,209	71,222
Netherlands	55,224	44,270
Switzerland	53,218	47,991
Germany	50,890	54,622
Australia	28,265	21,171
Hong Kong	28,164	22,272
Italy	25,958	26,490
Spain	22,632	17,727
Sweden	13,945	20,536
Finland	13,406	16,114
Other	53,261	26,732
	736,988	653,087
Receivable from sale of investments and accrued investment income	13,160	3,316
Liabilities for investment purchases	(5,762)	(4,877)
	7,398	(1,561)
	$ 764,388	$ 657,749

(a) The Plan's net investment in Non-North American public equities includes the fair value of deposits and floating rate notes, totalling $146,127,000 (2000 $148,595,000), which were used as underlying securities to support the notional amount of Non-North American equity index swaps contracts.

Schedule C

Schedule of Investments in United States Equities

December 31, 2001
($ thousands)

	Plan's Share	
	2001	2000
Deposit and short-term securities	$ 4,007	$ 378
Public Equities (a) (b)		
Basic materials	33,402	25,237
Commercial services	21,533	15,525
Consumer cyclical	54,906	38,261
Consumer non-cyclical	61,345	44,390
Consumer services	47,026	32,991
Energy	53,572	41,952
Financial	149,799	125,424
Health care	114,765	86,849
Industrials	30,211	23,106
Technology	151,422	134,457
Telecommunications	36,992	28,637
Transport	4,155	5,413
Utilities	16,015	24,805
	775,143	627,047
Receivable from sale of investments and accrued investment income	11,329	2,231
Liabilities for investment purchases	(1,868)	(5,521)
	9,461	(3,290)
	$ 788,611	$ 624,135

(a) The Plan's net investment in United States public equities includes the fair value of deposits and floating rate notes, totalling $337,081,000 (2000 $159,456,000), which were used as underlying securities to support the notional amount of U.S. equity index swaps contracts and futures contracts.

(b) The industrial classifications are those used by Standard & Poor's indices.

Schedule D

Schedule of Investments in Non-North American Equities

December 31, 2001
($ thousands)

	Plan's Share	
	2001	2000
Deposit and short-term securities	$ 20,002	$ 6,223
Public Equities (a)		
Country		
United Kingdom	185,898	140,816
Japan	121,918	143,124
France	84,209	71,222
Netherlands	55,224	44,270
Switzerland	53,218	47,991
Germany	50,890	54,822
Australia	28,265	21,171
Hong Kong	28,184	22,272
Italy	25,958	26,490
Spain	22,632	17,727
Sweden	13,945	20,536
Finland	13,406	18,114
Other	53,261	26,732
	736,988	653,087
Receivable from sale of investments and accrued investment income	13,160	3,316
Liabilities for investment purchases	(5,762)	(4,877)
	7,398	(1,561)
	$ 764,388	$ 657,749

(a) The Plan's net investment in Non-North American public equities includes the fair value of deposits and floating rate notes, totalling $146,127,000 (2000 $148,595,000), which were used as underlying securities to support the notional amount of Non-North American equity index swaps contracts.

employer listing

›City Hall, Medicine Hat, Alberta

Alberta Alcohol and Drug Abuse Commission
Agriculture Financial Services Corporation
Alberta Cancer Board
Alberta Gaming and Liquor Commission
Alberta Mental Health Board - Edmonton*
Alberta Opportunity Company
Alberta Pensions Administration Corporation
Alberta Research Council
Alberta Securities Commission
Alberta Treasury Branches
Athabasca University
Bow Valley College - Calgary
Edmonton Public School Board*
Government of Alberta
Legislative Assembly of Alberta
Norquest College - Edmonton
Northern Lakes College - Slave Lake
Office of the Ethics Commissioner
Office of the Information and Privacy Commissioner
Pembina Hills Regional Division No. 7*
Portage College - Lac La Biche
Special Areas Board
The Alberta Energy and Utilities Board
The Alberta Union of Provincial Employees*
The Banff Centre
University of Alberta
University of Calgary
University of Lethbridge
Workers' Compensation Board

** Employers with grandfathered employees. New hires are not eligible to join the Plan.*

glossary

Active member
A member who is making contributions or, if not making contributions, is on non-contributory leave for up to three years on approved disability leave, or at the point of maximum pensionable service (35 years).

Active strategies
These strategies have two forms – security selection or market timing. Security selection is the buying and selling of securities to earn a return above a market index such as the TSE 300 Index for Canadian stocks. Market timing is based on shifting asset class weights to earn a return above that available from maintaining the asset class exposure of the policy asset mix.

Asset mix
The percentage of a pension plan's assets allocated to the major asset classes (for example, 45% fixed income and 55% equities).

Benchmark
A standard against which others are measured. For the purposes of this report, benchmarks are established income indices (listed in percentages) used to measure the health of the Fund's investment returns.

Bond
A promissory note issued by a company or government which bears a fixed maturity date and rate of return.

Deferred member
A member who is no longer employed by a Plan employer, has left contributions in the Plan and has yet to choose a pension option.

Discount rate
The average annual investment return required to adequately fund the Plan.

Emerging market
An economy in the earlier stages of development whose markets have sufficient size and liquidity and are receptive to foreign investment. Examples include China, Greece and Brazil.

Equity
Stocks; the ownership interest in a company.

External manager
A third-party firm contracted to provide investment management services.

Interest rate sensitive equity
Equity whose return is expected to react to changes in interest rates.

Large cap
Investment in larger capitalized firms. Within Canada, companies with a market capitalization of greater than 0.15% of the total Toronto Stock Exchange market capitalization.

Manager structure
Manager structure refers to the number and mandates given to a plan's investment managers. Manager structures can be built around balanced fund mandates where the manager invests across multiple asset classes (Canadian stocks, Canadian bonds, U.S. and International stocks) or specialty mandates where the manager invests in a single asset class. In the case of a specialty mandate the focus can be very specific such as investing in only Canadian small capitalized companies.

Passive equity
Equity bought as Toronto Index Participation Units (TIPS), allowing a fund to buy into the top 35 companies on the Toronto Stock Exchange.

Passive strategies
These strategies involve investing to replicate the performance of a given market index such as the TSE 300 Index for Canadian stocks, or managing asset class exposure to match the performance of an established policy asset mix such as 50% TSE 300 Index and 50% Scotia Capital Markets Bond Universe Index.

Pensioner
A member, surviving spouse, or beneficiary who is receiving a pension from the Plan.

Policy benchmark return (policy return)
A benchmark return for the Fund which is composed from the long-term asset mix policy and the benchmark indices for each major asset class.

glossary cont'd...

Rate of return
The real rate of return is the return achieved by an asset after adjustments for inflation.

Real return bond
A fixed income investment product (a bond) whose return is linked to the real interest rate to generate a specified real rate of return.

Related Terms: The real interest rate is the nominal (set) interest rate minus inflation.

Statement of Investment Policies and Guidelines
A policy document set by the Board to establish the asset mix of the Fund, the manner by which IMD may invest assets and the specific holding limits for each type of security.

Small cap
Investment in smaller capitalized firms. Within Canada, companies with a market capitalization of less than 0.15% of the total Toronto Stock Exchange market capitalization.

Surplus
A surplus exists when the actuarial valuation determines the Fund's accrued benefit payments are less than the net assets available for the payment of those benefits.

Swap (structured investments)
A contract between two parties to pay the other party the return on an underlying investment.

T-Bill
Short-term government security.

Time-weighted return
A series of dollar-weighted rates of return designed to reduce the impact of the cashflows on the Fund's performance. Since the fund manager usually has little control over the timing of the cashflows, the time-weighted return is used to measure the performance of the fund managers.

Total return
Interest income or loss plus price fluctuations.

Indices

Consumer Price Index (CPI)
Measures the relative prices at various times of a select group of goods and services, which typify those bought by urban families. In this report, it is used to reflect the rate of inflation.

Russell Canadian Property Index
Measures the total return attributable to Canadian commercial real estate. Maintained by Frank Russell, the index is compiled and reported every three months.

Morgan Stanley Capital Index
Measures the total return attributable to the largest capitalized companies on the world's major stock exchanges. Maintained by Morgan Stanley, the index is compiled and reported monthly in local and common currencies.

Scotia Capital Markets Bond Universe Index
Measures the total return attributable to bonds and includes representative bond issues by issuer (Federal, Provincial, Municipal and Corporate), quality (AAA, AA, A, and BBB) and term (short-, mid-, and long-). Maintained by ScotiaMcLeod.

Scotia Capital Markets 91-Day T-Bill Index
Measures the total return attributable to 91-day T-Bills. Maintained by ScotiaMcLeod.

Standard & Poor's 500 Index
Measures the total return attributable to the 500 largest capitalized companies on U.S. stock exchanges.

TSE 300 Index
Measures the total return attributable to the 300 largest capitalized companies traded on the Toronto Stock Exchange. Maintained by the Toronto Stock Exchange, the index is compiled and reported on a daily basis. The index's composition is adjusted annually.

2002 directory

Alberta Prairie Railway Excursions, Stettler

Board Secretary
Ken Patterson,
Alberta Pensions
Administration Corporation

Administrator
Alberta Pensions
Administration Corporation

Fund Management
Investment Management
Division, Alberta Revenue

Actuary
Buck Consultants Limited

Auditor
Auditor General of Alberta

Public Service Pension Plan

2002 Board Members

Employee Nominees
Len Pederson, *Chair*
Carl Soderstrom
Ian Tarr

Employer Nominees
Lorna Smith, *Vice-Chair*
Janina Vanderpost
Sandra Kraatz

Investment Committee
Carl Soderstrom, *Chair*
Lorna Smith
Ian Tarr
Dick Bradshaw, *External member*
Jim Drinkwater, *External member*

Administration Committee
Janina Vanderpost, *Chair*
Len Pederson
Sandra Kraatz

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